

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: Parma Township	County Jackson
Audit Date March 31, 2006	Opinion Date April 12, 2006	Date Accountant Report Submitted To State: June 19, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 750 Trade Centre Way, Suite 300	City Portage	State MI	ZIP 49002-0483
Accountant Signature 			

Township of Parma, Michigan

**Financial Report
with Supplemental Information
March 31, 2006**

Township of Parma, Michigan

Contents

Report Letter	I
Management's Discussion and Analysis	2-5
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	6
Statement of Activities	7-8
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	9
Statement of Revenue, Expenditures, and Changes in Fund Balances	10
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	11
Proprietary Fund:	
Statement of Net Assets	12
Statement of Revenue, Expenses, and Changes in Net Assets	13
Statement of Cash Flows	14
Notes to Financial Statements	15-22
Required Supplemental Information	23
Budgetary Comparison Schedule - General Fund	24
Note to Required Supplemental Information	25



Plante & Moran, PLLC
Suite 300
750 Trade Centre Way
Portage, MI 49002
Tel: 269.567.4500
Fax: 269.567.4501
plantemoran.com

Independent Auditor's Report

To the Supervisor and Members of
the Township Board
Township of Parma, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Parma, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Parma, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Parma, Michigan as of March 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

April 12, 2006

A member of



A worldwide association of independent accounting firms

Township of Parma, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Township of Parma, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2006. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2006:

- During the year, the Township passed a new fire millage, resulting in approximately \$64,000 of additional revenues. These revenues were transferred to the joint Police and Fire Board.
- The Township received a Homeland Security grant during the year for the purchase of public safety equipment resulting in revenues of \$7,400.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds.

Township of Parma, Michigan

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2006 and 2005, comparatively:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	\$ 109,408	\$ 118,585	\$ 49,562	\$ 46,974	\$ 158,970	\$ 165,559
Noncurrent assets	15,409	9,375	68,413	75,059	83,822	84,434
Total assets	124,817	127,960	117,975	122,033	242,792	249,993
Liabilities						
Current liabilities	21,437	6,609	1,995	1,995	23,432	8,604
Long-term liabilities	58,160	65,073	-	-	58,160	65,073
Total liabilities	79,597	71,682	1,995	1,995	81,592	73,677
Net Assets						
Invested in capital assets -						
Net of related debt	15,409	9,375	68,413	75,059	83,822	84,434
Restricted:						
Construction code	15,998	13,415	-	-	15,998	13,415
Cemetery	12,257	12,197	-	-	12,257	12,197
Unrestricted	1,556	21,291	47,567	44,979	49,123	66,270
Total net assets	<u>\$ 45,220</u>	<u>\$ 56,278</u>	<u>\$ 115,980</u>	<u>\$ 120,038</u>	<u>\$ 161,200</u>	<u>\$ 176,316</u>

Governmental Activities

The Township's total governmental revenue increased by approximately \$94,000. The increase, which represents 35 percent, was due primarily to a new fire millage passed during the year and monies received from a Homeland Security grant. The fire millage accounts for approximately \$64,000 of the increase and the grant accounts for approximately \$7,000 of the increase.

Expenditures increased by \$40,000 during the year. The increase was due primarily to expenditures relating to the fire millage. The taxes were collected and disbursed to the Village of Parma during the year ended March 31, 2006.

Township of Parma, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The Township's business-type activities consist of the Water Fund. We provide water to residents in Amberton Village. Revenues decreased approximately \$7,200 compared to prior year and expenses remained consistent from 2005 to 2006.

The following table shows the changes of the net assets during the year ended March 31, 2006 comparatively with prior year information:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue - Charges for services	\$ 40,924	\$ 38,540	\$ 16,187	\$ 23,439	\$ 57,111	\$ 61,979
General revenue:						
Property taxes	145,428	65,449	-	-	145,428	65,449
State-shared revenue	166,882	165,403	-	-	166,882	165,403
Federal grants	13,100	-	-	-	13,100	-
Unrestricted investment earnings and miscellaneous	8,035	2,343	226	216	8,261	2,559
Total revenue	374,369	271,735	16,413	23,655	390,782	295,390
Program Expenses						
General government	131,437	124,471	-	-	131,437	124,471
Public safety	243,190	210,903	-	-	243,190	210,903
Recreation and culture	10,800	9,940	-	-	10,800	9,940
Water and sewer	-	-	20,471	20,092	20,471	20,092
Total program expenses	385,427	345,314	20,471	20,092	405,898	365,406
Change in Net Assets	\$ (11,058)	\$ (73,579)	\$ (4,058)	\$ 3,563	\$ (15,116)	\$ (70,016)

The Township's Funds

Our analysis of the Township's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township's major funds for 2006 include the General Fund and the Water Fund.

The General Fund pays for most of the Township's governmental services. The most significant are police and fire, which incurred expenses of approximately \$168,000. These two services are supported totally by the General Fund.

Township of Parma, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account events during the year. The most significant change was to increase the estimated receipts for the Homeland Security grant by \$7,400. Departments' expenditures overall were above budget by approximately \$27,500. This resulted in the General Fund fund balance decreasing from \$106,000 a year ago to \$74,000 at March 31, 2006.

Capital Asset and Debt Administration

At the end of 2006, the Township had \$397,208 invested in buildings and improvements, other tools and equipment, and the water system.

Economic Factors and Next Year's Budgets and Rates

The Township anticipates that water rates will not increase in 2007.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Township of Parma, Michigan

Statement of Net Assets March 31, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 88,027	\$ 48,328	\$ 136,355
Receivables (Note 4)	19,630	2,985	22,615
Internal balances	1,751	(1,751)	-
Capital assets - Net (Note 5)	15,409	68,413	83,822
Total assets	124,817	117,975	242,792
Liabilities			
Accrued and other liabilities	14,524	1,995	16,519
Installment purchase agreement (Note 6):			
Due within one year	6,913	-	6,913
Due in more than one year	58,160	-	58,160
Total liabilities	79,597	1,995	81,592
Net Assets			
Invested in capital assets - Net of related debt	15,409	68,413	83,822
Restricted:			
Construction code (Note 2)	15,998	-	15,998
Cemetery	12,257	-	12,257
Unrestricted	1,556	47,567	49,123
Total net assets	<u>\$ 45,220</u>	<u>\$ 115,980</u>	<u>\$ 161,200</u>

Township of Parma, Michigan

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Functions/Programs			
Primary government:			
Governmental activities:			
General government	\$ 131,437	\$ 23,141	\$ -
Public safety	243,190	17,783	13,100
Recreation and culture	10,800	-	-
Total governmental activities	385,427	40,924	13,100
Business-type activities - Water and sewer	20,471	16,187	-
Total primary government	<u>\$ 405,898</u>	<u>\$ 57,111</u>	<u>\$ 13,100</u>
General revenues:			
Property taxes			
State-shared revenues			
Unrestricted investment earnings			
Miscellaneous			
Total general revenues			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

Statement of Activities
Year Ended March 31, 2006

Net (Expense) Revenue and Changes		
Primary Government		
Governmental Activities	Business- type Activities	Total
\$ (108,296)	\$ -	\$ (108,296)
(212,307)	-	(212,307)
(10,800)	-	(10,800)
(331,403)	-	(331,403)
-	(4,284)	(4,284)
(331,403)	(4,284)	(335,687)
145,428	-	145,428
166,882	-	166,882
2,610	226	2,836
5,425	-	5,425
320,345	226	320,571
(11,058)	(4,058)	(15,116)
56,278	120,038	176,316
\$ 45,220	\$ 115,980	\$ 161,200

Township of Parma, Michigan

Governmental Funds Balance Sheet March 31, 2006

	Major Fund	Nonmajor Fund	
	General Fund	Permanent Fund - Cemetery Trust Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 75,985	\$ 12,042	\$ 88,027
Receivables	19,630	-	19,630
Due from other funds	1,751	215	1,966
Total assets	<u>\$ 97,366</u>	<u>\$ 12,257</u>	<u>\$ 109,623</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 14,524	\$ -	\$ 14,524
Due to other funds	215	-	215
Total liabilities	14,739	-	14,739
Fund Balances			
Reserved for construction code (Note 2)	15,998	-	15,998
Unreserved, reported in:			
General Fund	66,629	-	66,629
Cemetery Fund	-	12,257	12,257
Total fund balances	82,627	12,257	94,884
Total liabilities and fund balances	<u>\$ 97,366</u>	<u>\$ 12,257</u>	<u>\$ 109,623</u>
Total Fund Balance - Governmental Funds			\$ 94,884
Amounts reported for governmental activities in the statement of net assets are different because:			
Long-term liabilities not due and payable in the current period are not reported in the funds			
			(65,073)
Capital assets used in governmental activities are not financial resources are not reported in the funds			
			15,409
Net Assets of Governmental Activities			<u>\$ 45,220</u>

Township of Parma, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2006

	Major Fund	Nonmajor Fund	
	General Fund	Permanent Fund - Cemetery Trust Fund	Total Governmental Funds
Revenue			
Property taxes	\$ 145,428	\$ -	\$ 145,428
Licenses and permits	33,157	-	33,157
State-shared revenues	166,882	-	166,882
Federal grants	13,100	-	13,100
Charges for services	7,767	-	7,767
Interest	2,550	60	2,610
Other	5,425	-	5,425
	<u>374,309</u>	<u>60</u>	<u>374,369</u>
Expenditures - Current			
General government	128,013	-	128,013
Public safety	249,799	-	249,799
Highways and streets	3,199	-	3,199
Welfare, culture, and recreation	10,800	-	10,800
Other	6,259	-	6,259
	<u>398,070</u>	<u>-</u>	<u>398,070</u>
Net Change in Fund Balances	(23,761)	60	(23,701)
Fund Balances - Beginning of year	106,388	12,197	118,585
Fund Balances - End of year	<u>\$ 82,627</u>	<u>\$ 12,257</u>	<u>\$ 94,884</u>

Township of Parma, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ (23,701)
---	--------------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Asset purchases	7,437
Depreciation	(1,403)

Repayment of debt is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt)

6,609

Change in Net Assets of Governmental Activities	<u>\$ (11,058)</u>
--	---------------------------

Township of Parma, Michigan

Proprietary Fund Statement of Net Assets March 31, 2006

	Enterprise - Water Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 48,328
Receivables - Net	<u>2,985</u>
Total current assets	51,313
Noncurrent assets - Capital assets	<u>68,413</u>
Total assets	119,726
Liabilities - Current liabilities	
Accrued and other liabilities	1,995
Due to other funds	<u>1,751</u>
Total liabilities	<u>3,746</u>
Net Assets	
Investment in capital assets - Net of related debt	68,413
Unrestricted	<u>47,567</u>
Total net assets	<u><u>\$ 115,980</u></u>

Township of Parma, Michigan

Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2006

	Enterprise - Water Fund
Operating Revenue - Water services	\$ 16,187
Operating Expenses	
Operations and maintenance	13,825
Depreciation	<u>6,646</u>
Total operating expenses	<u>20,471</u>
Operating Loss	(4,284)
Nonoperating Revenue - Interest	<u>226</u>
Change in Net Assets	(4,058)
Net Assets - Beginning of year	<u>120,038</u>
Net Assets - End of year	<u><u>\$ 115,980</u></u>

Township of Parma, Michigan

Proprietary Fund Statement of Cash Flows Year Ended March 31, 2006

	Enterprise - Water Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 19,274
Payments to suppliers	<u>(13,696)</u>
Net cash provided by operating activities	5,578
Cash Flows from Investing Activities - Interest received on investments	<u>226</u>
Net Increase in Cash and Cash Equivalents	5,804
Cash and Cash Equivalents - Beginning of year	<u>42,524</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 48,328</u></u>
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (4,284)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	6,646
Changes in assets and liabilities - Receivables	<u>3,216</u>
Net cash provided by operating activities	<u><u>\$ 5,578</u></u>

There were no noncash transactions during the year ended March 31, 2006.

Township of Parma, Michigan

Notes to Financial Statements March 31, 2006

Note I - Summary of Significant Accounting Policies

The accounting policies of the Township of Parma, Michigan (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Parma, Michigan:

Reporting Entity

The Township of Parma, Michigan is governed by an elected five-member board. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. In accordance with this criteria, there are no component units included in this reporting entity.

Joint Ventures

The Township, Sandstone Charter Township, and the Village of Parma support and govern the Parma-Sandstone fire board and police board. The financial statements of the Parma-Sandstone fire board and police board are not included in the report. The Parma-Sandstone fire board and police board is administered and employees are paid by the Village of Parma. The Township is responsible for 40 percent of the operations and 33 1/3 percent of the capital outlay expenditures. Capital outlay expenditures are recorded as fixed assets on the books of the Village of Parma.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Township of Parma, Michigan

Notes to Financial Statements March 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental fund:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Township reports the following major proprietary fund:

Water Fund - The Water Fund accounts for the activities of the water distribution system.

Township of Parma, Michigan

Notes to Financial Statements March 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Township's proprietary fund relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2005 tax is levied and collectible on December 1, 2005 and is recognized as revenue in the year ended March 31, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the Township totaled \$57.9 million, on which taxes levied consisted of .8639 mills for operating purposes and 1.25 mills for fire and rescue. This resulted in \$52,000 for operating purposes and \$64,343 for fire and rescue, which is recognized in the General Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Township of Parma, Michigan

Notes to Financial Statements March 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Water systems	5 to 20 years
Buildings and building improvements	40 to 50 years
Other tools and equipment	3 to 7 years

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Township of Parma, Michigan

Notes to Financial Statements March 31, 2006

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year's activity and the cumulative surplus generated since January 1, 2000 is as follows:

Surplus at April 1, 2005	\$ 13,415
Current year building permit revenue	13,700
Related expenses:	
Direct costs	(8,060)
Estimated indirect costs	<u>(3,057)</u>
Total construction code expenses	<u>(11,117)</u>
Surplus at March 31, 2006	<u>\$ 15,998</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Township has designated one bank for the deposit of its funds.

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$38,600 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Township of Parma, Michigan

Notes to Financial Statements March 31, 2006

Note 4 - Receivables

Receivables as of year end for the Township's individual major funds are as follows:

	General Fund	Water Fund	Total
Receivables:			
Taxes	\$ 15,881	\$ -	\$ 15,881
Accounts	3,749	2,985	6,734
Total receivables	<u>\$ 19,630</u>	<u>\$ 2,985</u>	<u>\$ 22,615</u>

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance April 1, 2005	Additions	Balance March 31, 2006
Governmental Activities			
Capital assets being depreciated:			
Buildings and improvements	\$ 18,600	\$ 2,837	\$ 21,437
Other tools and equipment	6,746	4,600	11,346
Subtotal	25,346	7,437	32,783
Accumulated depreciation:			
Buildings and improvements	9,225	483	9,708
Other tools and equipment	6,746	920	7,666
Subtotal	15,971	1,403	17,374
Net capital assets	<u>\$ 9,375</u>	<u>\$ 6,034</u>	<u>\$ 15,409</u>

Township of Parma, Michigan

Notes to Financial Statements March 31, 2006

Note 5 - Capital Assets (Continued)

	Balance April 1, 2005	Deductions	Balance March 31, 2006
Business-type Activities			
Capital assets being depreciated - Water system	\$ 364,425	\$ -	\$ 364,425
Accumulated depreciation - Water system	<u>289,366</u>	<u>(6,646)</u>	<u>296,012</u>
Net capital assets	<u>\$ 75,059</u>	<u>\$ (6,646)</u>	<u>\$ 68,413</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities - General government	<u>\$ 1,403</u>
Business-type activities - Water	<u>\$ 6,646</u>

Note 6 - Installment Purchase Agreement

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities - Tanker truck - Installment purchase agreement	\$ 78,000 4.599%	2004-2014	<u>\$ 71,682</u>	<u>\$ -</u>	<u>\$ (6,609)</u>	<u>\$ 65,073</u>	<u>\$ 6,913</u>

The annual debt requirements, including principal and interest, are as follows:

	Governmental Activities		
	Principal	Interest	Total
2007	\$ 6,913	\$ 2,993	\$ 9,906
2008	7,231	2,675	9,906
2009	7,564	2,342	9,906
2010	7,912	1,994	9,906
2011	8,275	1,631	9,906
2012-2014	<u>27,178</u>	<u>2,537</u>	<u>29,715</u>
Total	<u>\$ 65,073</u>	<u>\$ 14,172</u>	<u>\$ 79,245</u>

Township of Parma, Michigan

Notes to Financial Statements March 31, 2006

Note 7 - Interfund Receivables and Payables

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Water Fund	\$ 1,751
Cemetery Fund	General Fund	215
Total		<u>\$ 1,966</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for all the above claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 - Defined Contribution Pension Plan

The Township provides pension benefits to substantially all employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. Amounts contributed are approved annually by a board motion. The Township's contributions for each employee (plus interest allocated to the employee's account) are fully vested after one year of service. The Township contributed \$2,947 during the year and employees contributed \$1,066.

Required Supplemental Information

Township of Parma, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance
Revenue				
Property taxes	\$ 67,450	\$ 72,491	\$ 81,085	\$ 8,594
State-shared revenues	165,800	166,350	166,882	532
Federal grants	-	13,100	13,100	-
Licenses and permits	31,483	28,750	33,157	(33)
Charges for services	3,300	7,800	7,767	4,407
Interest income	3,100	3,952	2,550	(1,402)
Other	870	670	5,425	4,755
Total revenue	272,003	293,113	309,966	16,853
Expenditures				
General government:				
Township assessor	20,225	23,405	23,331	(74)
Township board	64,077	64,094	63,370	(724)
Supervisor	9,886	9,396	8,990	(406)
Clerk	10,051	10,486	10,105	(381)
Treasurer	18,099	18,964	18,942	(22)
Elections	2,539	3,037	3,275	238
Total general government	124,877	129,382	128,013	(1,369)
Public safety:				
Police	70,930	74,230	80,360	6,130
Fire	67,640	65,640	87,262	21,622
Building inspection and regulation activities	20,720	18,330	17,834	(496)
Total public safety	159,290	158,200	185,456	27,256
Highways and streets	4,600	3,300	3,199	(101)
Welfare, culture, and recreation	10,900	9,800	10,800	1,000
Other general fund expenditures:				
Street lighting - Electric service	2,320	2,320	2,286	84
Retirement - Pension expense	3,235	3,235	3,973	(738)
Total other General Fund expenditures	5,555	5,555	6,259	704
Total General Fund expenditures	305,222	306,237	333,727	27,490
Excess of Expenditures Over Revenue	(33,219)	(13,124)	(23,761)	(10,637)
Fund Balance - Beginning of year	106,388	106,388	106,388	-
Fund Balance - End of year	<u>\$ 73,169</u>	<u>\$ 93,264</u>	<u>\$ 82,627</u>	<u>\$ (10,637)</u>

Township of Parma, Michigan

Note to Required Supplemental Information March 31, 2006

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, with the exception for the fire levy note below. Unexpended appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The 2005-2006 budget was adopted in March 2005. The amount of encumbrances outstanding at March 31, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level.

In addition to the budgetary information provided, included in the Township's property tax revenue and fire expenditures is \$64,000. This amount was collected and disbursed to the Village of Parma during the fiscal year ended March 31, 2006.

A comparison of actual expenditures to the General Fund budget, as adopted by the Township board, is included in the supplemental information. This comparison includes expenditure budget overruns. The Township had the following significant budget overrun during the year:

	Amended Budget	Actual
Public safety - Fire	\$ 65,640	\$ 87,262